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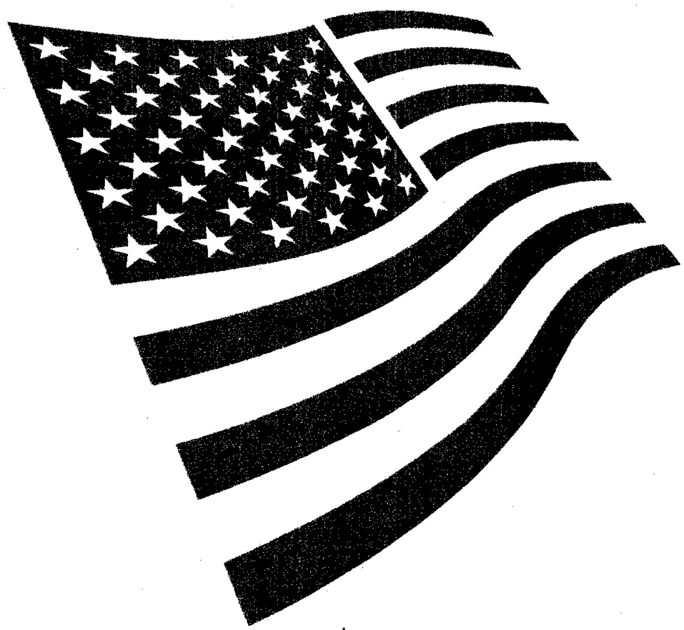
FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2002



OFFICE OF INSPECTOR GENERAL

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FTC and Its Mission

The Federal Trade Commission (FTC) was created by the Federal Trade Commission Act of 1914. The FTC's mandate is to enforce federal antitrust, competition, and consumer protection laws. To this end, the FTC's mission implements a core function of government: to protect consumers and enhance competition by eliminating unfair or deceptive acts or practices in the marketing of goods and services, and ensuring that consumer markets function competitively.

The FTC's work is based on the belief that competition among producers and accurate information in the hands of consumers bring the best products and lowest prices to the marketplace, spur innovation, and strengthen the economy.

Limitations of the Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements rests with FTC management. The accompanying financial statements have been prepared in conformity with the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. FTC is fully committed to the principles and objectives of both the Chief Financial Officers (CFOs) Act of 1990 and the Federal Financial Management Improvement Act of 1996. Comparative data for the prior fiscal year is presented. The statements should be read with the realization that they are for a component of the U.S. Government, i.e., a sovereign entity.

Audit of FTC's 2002 Principal Statements

The Office of Inspector General of the Federal Trade Commission has examined the agency's financial statements. The Inspector General's report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the statements.

Financial Resources and Results of Operations

The accompanying statements summarize the FTC's financial position, disclose the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenue for the years ended September 30, 2002 and 2001.

Objective 1: Identify fraud, deception, and unfair practices that cause the greatest consumer injury.

The FTC measures performance in this objective by determining the number of consumer complaints and inquiries that are added annually to our Consumer Information System database. The complaints in this database are used to identify problem areas as reported by the public. This enables the agency to detect and respond rapidly to fraud, deception, and other illegal practices, resulting in effective targeting of the agency's law enforcement resources. The continuous input of new complaints into the database helps the FTC and its enforcement partners determine where and how the latest incidents of fraud may be occurring. The target for fiscal year 2002 was to add at least 400,000 entries into the database. At the end of the fiscal year, 680,000 entries had been added. With the help of a consumer fraud survey to be conducted in 2003, the FTC will continue to evaluate the representative value of new complaints and review how best to use the data received.

The FTC also shares complaints about fraud and deception relating to telemarketing, direct mail, and the Internet with more than 580 law enforcement partners through *Consumer Sentinel*, a secure Web site that provides access to more than 870,000 fraud and identity theft complaints. *Consumer Sentinel* is accessed by law enforcers in the United States, Canada, and Australia through an encrypted Web site to determine whether a particular fraudulent scheme is local, national, or cross-border in nature, and also to help spot larger trends for law enforcement action.

Several new features have been added to *Consumer Sentinel* to assist law enforcement personnel. An "Alert" function allows *Consumer Sentinel* users to place a tag on companies and individuals in the database that are under investigation and thus inform other law enforcers using the database. Consequently, the "Alert" function has enhanced coordination of law enforcement efforts. New reports, including top violator reports and Internet-related complaint trend data are posted on *Consumer Sentinel*. *Consumer Sentinel* also added information to assist law enforcers in coordinating cross-border investigations. Examples include a list of contacts in the countries participating in *Consumer Sentinel,* and tips on how to determine the business, domain, and postal box registration in 19 countries. *Consumer Sentinel* soon will offer additional tools to assist coordination of investigations.

Objective 2: Stop fraud, deception, and unfair practices through law enforcement.

The FTC measures the effectiveness of its law enforcement efforts to stop fraud by estimating the amount of money it has saved consumers based on the annual fraudulent sales of defendants. Saving consumers money is the ultimate goal of these efforts. Consumers save money each time a fraudulent operator is stopped by successful litigation or settlement with the agency. Savings to consumers are increased when the agency leads joint law enforcement initiatives with federal, state, and international partners. The target for fiscal year 2002 was to save consumers $400 million. The year ended with savings to consumers at approximately $561 million, or 140 percent of the target.

The second performance measure under this objective, based on the assumption that advertisers seek to increase sales by at least as much as they spend on advertising, was created to evaluate the impact of stopping deceptive advertisements. The fiscal year 2002 goal was to stop $100 million in deceptive or unfair advertising campaigns. The agency stopped $40 million, or 40 percent of the goal. The FTC will eliminate this measure in 2003, as it has not proven to be appropriate in measuring performance. When this measure was first established, the FTC based it on prior year data that included several large national advertising claims that were terminated as a result of FTC action. Since that time, the agency has increased its focus on deceptive Internet advertising claims. Internet advertising is very broadly disseminated, but is considerably less expensive than traditional advertising campaigns. In addition, during fiscal year 2002, the FTC performed a more effective job of identifying problems in traditional sales ads early on, further reducing the dollar volume of deceptive ads that were stopped.

In fiscal year 2003, the FTC will establish two new performance measures under this objective – to report the number of data searches by FTC and other law enforcement personnel of the FTC's *Consumer Sentinel* complaints and the number of data searches by law enforcement personnel of the FTC's identity theft complaints.

<u>Objective 3: Prevent consumer injury through education.</u>

Consumer and business education represent the first line of defense against fraud, deception, and unfair practices. All FTC law enforcement initiatives include a consumer and/or business education component aimed at preventing consumer injury and unlawful business practices. Public education programs benefit consumers by alerting them to their rights under various consumer protection laws and providing practical tips on how to recognize and avoid scams and rip-offs. To reach the broadest possible audience, the FTC makes maximum use of the national media and outreach to lead more consumers to the FTC's Web site (www.ftc.gov) and the "one-stop" government Web site for consumer information (www.consumer.gov). Messages also reach the public through the Consumer Response Center (at 1-800-FTC-HELP) and hundreds of partners who distribute FTC materials, link to the Web site, or post the FTC's messages on their Web sites. The goal in fiscal year 2002 was to reach an audience of at least 10.5 million with FTC education messages. At year end, 19.3 million education messages had been distributed. For the third consecutive year, more messages were distributed online (12.3 million) than in print (7.0 million).

To reach the expanding population of Hispanic consumers in the United States, the FTC instituted a Hispanic Outreach Program in January 2002. This effort included the creation of a dedicated Spanish-language page on the FTC Web site to mirror the English-language page and the translation of 32 consumer publications. The FTC Consumer Complaint Form also was translated into Spanish.

In fiscal year 2003, the FTC will establish two new performance measures under this objective – to report the annual number of education publications distributed to or accessed by consumers relating to identity theft and the annual number of Spanish-language publications distributed to or accessed electronically by consumers.

Maintaining Competition

The goal of the Maintaining Competition mission is to prevent anticompetitive mergers and other anticompetitive business practices in the marketplace. The mission works to accomplish its goal by (1) identifying mergers and business practices that harm consumers by restricting competition, (2) using its law enforcement powers to stop anticompetitive mergers and business practices, and (3) working to increase knowledge and understanding of the antitrust laws and the benefits of competition among consumers, the business community, and other government officials.

During most of the last decade, unprecedented levels of merger activity in the marketplace dominated the FTC's Maintaining Competition agenda, with the number, size, and scope of proposed mergers increasing year after year. The trend toward larger and more complex merger transactions continues, although the number of merger transactions declined beginning in 2001, and the volume of merger activity remains significant by historic standards. Nearly 60 percent of the transactions reported during the fiscal year exceeded $100 million in value. Antitrust review of large transactions is invariably much more complex and time consuming than is the case for smaller transactions. These transactions may involve many more product and geographic markets, each requiring a separate antitrust analysis.

During fiscal year 2002, the FTC continued efforts begun in 2001 to reinvigorate the nonmerger portion of its Maintaining Competition mission. The historic peak in merger activity during the late 1990's had required the agency to reallocate resources from nonmergers to mergers. In addition, the agency has focused on the educational aspect of the Maintaining Competition mission, a key responsibility since the FTC's inception.

<u>Objective 1: Identify anticompetitive mergers and practices that cause the greatest consumer injury</u>

The FTC uses premerger notification reports required under the Hart-Scott-Rodino (HSR) Act as its primary means for identifying potentially anticompetitive mergers. In fiscal year 2002, the first full year under higher reporting thresholds under the HSR Act, as well as a less active economy, a reduced number of transactions was reported to the antitrust enforcement agencies. The change in reporting thresholds did not alter the standard of legality for mergers under Section 7 of the Clayton Act, however, so the FTC increased its other efforts to identify unreported mergers that might harm competition. These efforts included monitoring trade press and Internet resources, as well as following up on information from Congressional offices, other Executive Branch agencies, state and local government consumers, businesses, and the bar about possibly anticompetitive mergers.

The FTC devoted more resources to nonmerger investigations and cases in light of reduced merger activity, making the balance between merger and nonmerger activities more consistent with historic allocations. The agency uses the same means that it relies upon in identifying problematic but non-reportable mergers to identify other potentially anticompetitive practices. The Maintaining Competition mission measures its success in identifying anticompetitive mergers and business practices by tracking (1) the percentage of significant merger investigations (defined by the issuance of a formal request for additional information (a "second request") from the parties under the HSR Act) that result in enforcement action, and (2) the number of new nonmerger investigations opened. The agency seeks to balance its available resources and the need for careful review of all potentially anticompetitive merger transactions, so that between 60 percent and 80 percent of HSR requests for additional information result in enforcement action. A percentage below 60 percent may suggest that the FTC is targeting enforcement resources ineffectively and unduly burdening businesses by investigating too many competitively benign transactions, while a percentage higher than 80 percent could suggest that the agency may be allowing anticompetitive mergers to go forward by focusing too narrowly. In 2002, the FTC authorized a preliminary injunction action, issued a Part 3 complaint, or accepted a consent order for comment in 68 percent (19 of 28) of the second request investigations concluded during the year.

The mission also measures its success in identifying anticompetitive practices that cause consumer injury by counting the number of nonmerger investigations opened during the year, with a goal of 45 to 70 new investigations. This figure fluctuates based on the demands of the agency's merger caseload, which is subject to statutory time constraints. In 2002, the Maintaining Competition mission opened 59 nonmerger investigations, 3 more than it opened in 2001, and more than double the number opened during the peak of merger activity in 2000.

Objective 2: Stop anticompetitive mergers and practices through law enforcement

The FTC employs its law enforcement authority to stop anticompetitive mergers and practices both directly and indirectly. Through federal court or administrative litigation or by negotiated settlement, the agency saves consumers millions of dollars annually by preventing harmful merger transactions from taking place, by arranging for restructuring of transactions to eliminate anticompetitive effects, or by stopping unlawful business practices. In addition to these direct actions, an effective FTC enforcement presence indirectly serves its objective by demonstrating to the business and legal communities that the agency can and will take successful legal action to stop anticompetitive transactions and practices.

The FTC's merger enforcement program focuses primarily on mergers among direct competitors. The FTC also acts against vertical and potential competition mergers and joint ventures that harm or threaten to harm competition. The FTC directs much of its attention and merger-related resources to segments of the economy that are particularly important to consumers and in which the FTC has particular expertise. These include energy and natural resources, food, health care, consumer goods and services, pharmaceuticals, video programming and distribution (cable television), and computer technology.

The FTC's nonmerger enforcement activities focus on business activities that significantly threaten competition and harm consumers. Agreements among competitors constitute the most significant source of nonmerger competitive harm. Other conduct, such as unilateral action by a single firm, or agreements between a supplier and customers or between a firm and a potential competitor, may also threaten competition. The FTC's nonmerger enforcement activities are focused on (1) collusion among competitors in various industries and among professionals, (2) practices facilitating collusion, (3) horizontal restraints under the aegis of regulation, (4) resale price maintenance, (5) discrimination in price or promotional opportunities, (6) nonprice distributional restraints, including alleged exclusive dealing, tying, and other nonprice vertical restrictions, and (7) single-firm abuses, involving alleged monopolization, attempted monopolization, predation or other conduct abuses. In fiscal year 2002, the FTC focused in particular on the health care and pharmaceutical industries, which have an unusually broad impact on general consumer welfare as well as on individual consumers.

In fiscal year 2002, the FTC undertook 33 antitrust enforcement actions, an increase of 22 percent over the 27 enforcement actions in 2001. In the merger area, the FTC authorized the staff to seek preliminary injunctions in five matters, issued two administrative complaints, and accepted ten consent agreements for comment. In addition, merger parties abandoned seven merger transactions in the face of probable FTC action. The FTC issued a nonmerger administrative complaint and accepted eight nonmerger consent agreements for comment.

The FTC uses three measures to determine its success in stopping anticompetitive mergers and practices: (1) the percentage of positive outcomes obtained in antitrust enforcement actions, (2) the estimated savings to consumers resulting from FTC merger enforcement actions, and (3) the estimated savings to consumers resulting from FTC nonmerger enforcement actions.[1]

A "positive outcome" for an enforcement action includes abandonment of an anticompetitive transaction following an FTC challenge, a consent agreement to resolve antitrust concerns, or a successful result in court after all proceedings, including appeals, have concluded. A negative outcome occurs when parties refuse to settle antitrust concerns raised by the agency, and the agency is unsuccessful in obtaining relief through the courts. The Commission significantly exceeded its goal of positive outcomes in 80 percent of its enforcement actions concluded during year.

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[1] The FTC's use of estimated consumer savings performance measures, and use of a similar measure by the Department of Justice, has generated some constructive criticism. *See, e.g.*, Philip Nelson and Su Sun, *Consumer Savings from Merger Enforcement: A Review of the Antitrust Agencies' Estimates*, 69 Antitrust Law Journal 921, 936-7 (2002). The issues that have been raised relate to (1) how well the measure correlates with the substantive legal standard that applies, (2) an apparent assumption of agency infallibility implicit in the measure (i.e., that every enforcement action taken by the FTC benefits consumers), (3) possible perverse incentives for the agency to pursue inappropriate policies, and (4) difficulty in comparing agency performance from one year to the next based on this measure.

The FTC acknowledges these concerns. While the consumer savings measures can be an appropriate indicator of the scope of the FTC's enforcement activities, they can be subject to misinterpretation. Consequently, the FTC anticipates adopting revised measures of the scope of enforcement activity, beginning with fiscal year 2004, which should offer similar benefits with fewer drawbacks.

As part of its FY 2000 - 2005 Strategic Plan, the FTC set a goal of $4 billion in consumer savings from merger enforcement over the five-year period (using an aggregate figure for the period rather than yearly goals because external factors cause significant fluctuation). Over the first two years of the period, the estimated consumer savings from FTC merger enforcement was over $3.2 billion, representing 80 percent of the target in less than half the applicable time period.

The FTC also set a goal of $1 billion in consumer savings from nonmerger antitrust enforcement over the 5-year strategic plan period. Over the first two years, the agency's nonmerger enforcement has resulted in approximately $243 million. Although this figure is somewhat lower than the amount needed to stay on track toward the 5-year goal, the *total* merger and nonmerger consumer savings of about $3.5 billion for FY 2001 and 2002 is well ahead of the average yearly total savings of $1 billion need to achieve the target total of $5 billion merger and nonmerger savings over five years.

<u>Objective 3: Prevent consumer injury through education</u>

The Commission increases awareness of antitrust law and policy through development and publication of antitrust guidelines and policy statements, press releases and public dissemination of documents describing its formal actions, well-publicized testimony, speeches and publications, and other means. By using these mechanisms to signal its enforcement policies and priorities, the FTC deters would be violators of the antitrust laws.

FY 2002, the FTC advised the public on its enforcement decisions by:

- issuing press releases describing enforcement actions and other significant non-enforcement activities;
- increasing transparency in decision-making, issuing a public explanation of its reasons not to take enforcement action in appropriate instances;
- consistent with its historic role, studying and reporting on significant policy issues and competitive conditions in particular markets;
- responding to requests from other government entities for advice on the implications for competition and consumers of proposed regulatory actions;
- regularly appearing before business, bar, and consumer groups, as well as before Congressional committees, to address competition-related subjects, and
- maintaining effective coordination and liaison with foreign competition authorities.

As one example of the value of FTC analysis and information dissemination efforts, President Bush prominently cited a recent FTC report entitled *Generic Drug Entry Prior to Patent Expiration*, when he announced regulatory measures to foster competition in the pharmaceutical industry in October 2002. The report suggested certain changes in balance between competition and intellectual property law, such as permitting only one automatic 30-day stay per drug product, per generic entry application pending patent infringement litigation, which the President adopted in his program.

The FTC uses two performance measures, new in FY 2001, to assess its public education efforts: (1) the number of initiatives (including speeches, testimony, reports, policy statements, etc.) to educate the public during the year, and (2) the number of times that members of the public visit antitrust related content on the FTC's Web site. Since the FTC publishes virtually all significant public documents on its Web site, the number of "hits" on antitrust content there should provide a good indication of the quality of information provided to the public, as well as its quality (because visitors will stay longer and return more often if the information is helpful).

In FY 2002, agency representatives undertook 285 antitrust outreach efforts, including speeches, testimony, written comments on regulatory proposals, policy statements, etc. This figure, representing more than twice the number reported for FY 2001. Although improvements in counting methodology likely resulted in some of the gain, the result still shows a significant expansion in the FTC's public outreach efforts during 2002.

The FTC's Web site recorded about 4.35 million hits on antitrust-related content in FY 2002, an increase from 2.6 million hits in 2001. This measure is significant in that it represents initiative taken by *the public*, to seek out FTC information, rather than merely reflecting agency activities.

Custodial Activity

Fighting fraud is one of the FTC's highest priorities; consumers are bilked out of billions of dollars a year by perpetrators of traditional fraud and fraud on the Internet. In fraud cases, the FTC files actions in federal district court to bring an immediate halt to ongoing business activities and freeze defendants' assets. The FTC then pursues court orders that permanently ban the fraudulent activities and provide redress to consumers. In non-fraud cases, usually involving advertising claims, redress may be obtained for consumers in settlement of administrative complaints. In addition, when a company or individual violates an FTC Trade Regulation Rule, a statute enforced by the agency, or a prior agency order, the FTC seeks federal district court orders permanently barring future violations and requiring payment of civil penalties. As these agency enforcement activities generate substantial amounts of non-exchange revenue, a Statement of Custodial Activity (SCA) forms part of the FTC's financial statement package.

The SCA is a required financial statement under *Statement of Federal Financial Accounting Concepts (SFFAC) No. 2* for those federal agencies that collect non-exchange revenues (e.g., taxes, duties, fines, and penalties) for the general fund of the Treasury, a trust fund, or other recipient entities.

In addition to the fines and penalties collected and transferred to the general fund of the Treasury, the agency transfers one-half of the Hart-Scott-Rodino premerger filing fees collected during the year to the Antitrust Division of the Department of Justice.

OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Chairman Muris:

The Office of Inspector General has audited the Federal Trade Commission's (the Commission) Balance Sheets as of September 30, 2002 and 2001, and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing, and Statements of Custodial Activity for the years then ended, and has considered internal control over financial reporting and the FTC's compliance with laws and regulations.

Opinion on Financial Statements

In our opinion, the financial statements referred to above, including the notes thereto, present fairly, in all material respects, the Commission's assets, liabilities and net position as of September 30, 2002 and 2001, and the net costs and changes in net position, its budgetary resources, financing and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States.

Other Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the FY 2002 and 2001 principal financial statements of the Commission taken as a whole. The information discussed below is presented for purposes of additional analysis and is not a required part of the principal financial statements.

- The information in the Required Supplementary Information section has been subjected to the auditing procedures applied in the audit of the Commission's principal financial statements and, in our opinion, is fairly stated in all material respects in relation to the principal financial statements taken as a whole.

- The information in the Management Discussion and Analysis of the Commission's annual financial statements is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. This information is, however, addressed in our assessment of internal control discussed below.

Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Commission. However, the objective of our audit of these financial statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes and regulations, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the statement of financial position referred to above or that sensitivity warrants disclosure thereof.

The results of our test of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

With respect to items not tested, nothing came to our attention to cause us to believe the Commission had not complied, in all respects, with those provisions.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the financial statements in conformity with generally accepted accounting principles described in Note 1 to the financial statements;
- establishing and maintaining an effective internal control over financial reporting; and
- complying with application laws and regulations.

Our responsibility is to express an opinion on these financial statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misrepresentation and presented fairly in accordance with the generally accepted accounting principles. We performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on these financial statements and not to provide an opinion on the internal control over financial reporting. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- obtained an understanding of the design of relevant internal controls and determined whether they had been placed in operation;
- assessed control risk;
- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statement;
- tested compliance with selected provisions of the laws and regulations that may materially affect the financial statements; and
- performed other procedures that we considered necessary under the circumstances.

Our audits were conducted in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards,* as issued by the Comptroller General of the United States; and OMB Bulletin No. 01-02. We believe that our audits provide a reasonable basis for our opinion.

While this report is intended solely for the information and use of the Federal Trade Commission, the Office of Management and Budget and the Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Frederick J. Zirkel

Washington, D.C.
January 24, 2003

Inspector General
Federal Trade Commission

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2002 and 2001

	2002	2001
Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 29,599,234	$ 35,760,720
Accounts Receivable, Net (Note 4)	154,688	178,730
Total Intragovernmental Assets	29,753,922	35,939,450
Cash and Other Monetary Assets (Note 3)	-	11,020
Travel Advances	6,816	-
Property, Plant, and Equipment, Net (Note 5)	7,208,183	2,726,901
Total Entity Assets	36,968,921	38,677,371
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	3,328,634	10,683,855
Cash and Other Monetary Assets (Note 3)	102,250,342	81,827,457
Accounts Receivable, Net (Note 4)	94,830,347	35,855,876
Total Non-Entity Assets	200,409,323	128,367,188
Total Assets	$ 237,378,244	$ 167,044,559

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
BALANCE SHEETS
As of September 30, 2002 and 2001

	2002	2001
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	$ 436,839	$ 866,385
Accounts Payable	2,467,457	610,596
Total Intragovernmental Liabilities	2,904,296	1,476,981
With the Public		
Accounts Payable	3,944,604	6,896,423
Accrued Salaries	2,112,010	3,424,521
Total Liabilities Covered by Budgetary Resources	8,960,910	11,797,925
Liabilities Not Covered by Budgetary Resources (Note 6):		
Intragovernmental Liabilities:		
Undisbursed Premerger Filing Fees	1,683,147	5,921,233
Other Liabilities	2,190,737	2,150,405
Total Intragovernmental Liabilities	3,873,884	8,071,638
Actuarial FECA Liabilities	2,329,046	1,927,381
Accrued Annual Leave	6,666,408	6,238,991
With the Public	196,917,176	120,586,955
Total Liabilities Not Covered by Budgetary Resources	209,786,514	136,824,965
Total Liabilities	218,747,424	148,622,890
Net Position: (Note 7)		
Balances:		
Unexpended Appropriations	350,000	-
Cumulative Results of Operations	18,280,820	18,421,669
Total Net Position	18,630,820	18,421,669
Total Liabilities and Net Position	$ 237,378,244	$ 167,044,559

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2002 and 2001

	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 18,421,669	$ -	$ 8,888,698	$ 70,230
Budgetary Financing Sources:				
Appropriations Received	-	86,203,217	-	58,946,915
Appropriations Transferred-In/Out	-	350,000	-	(70,230)
Appropriations Used	86,203,217	(86,203,217)	58,946,915	(58,946,915)
Other Financing Sources:				
Imputed Financing (Note 9)	5,110,007	-	4,519,974	-
Total Financing Sources	91,313,224	350,000	63,466,889	(70,230)
Net Cost of Operations	(91,454,073)	-	(53,933,918)	-
Ending Balances	$ 18,280,820	$ 350,000	$ 18,421,669	$ -

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2002 and 2001

	2002	2001
Budgetary Resources:		
Budget authority		
Appropriation	$ 86,203,217	$ 58,876,685
Net Transfers	350,000	-
Unobligated Balance:		
Beginning of Period	6,619,335	6,647,412
Spending Authority from Offsetting Collections		
Earned		
Collected	69,227,799	87,087,426
Receivable from Federal Sources	(24,042)	85,244
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	238,124	(187,602)
Recoveries of Prior Year Obligation	2,230,632	791,733
Total Budgetary Resources	$ 164,845,065	$ 153,300,898
Status of Budgetary Resources:		
Obligations incurred		
Direct	87,580,125	58,913,888
Reimbursable	69,451,584	87,767,675
Subtotal	157,031,709	146,681,563
Unobligated Balance		
Available	447,126	1,117,393
Not Available	7,366,230	5,501,942
Total Status of Budgetary Resources	$ 164,845,065	$ 153,300,898
Summary of Obligations and Outlays		
Obligated balance net beginning of period	29,152,405	17,333,913
Obligated balance net end of period:		
Account receivable	(161,504)	(178,730)
Unfilled customer orders from federal sources	(377,370)	(139,246)
Undelivered orders	13,363,842	17,672,456
Account payable	8,960,910	11,797,925
Total obligated balance net end of period	21,785,878	29,152,405
Outlays:		
Disbursements	161,953,522	134,232,665
Collections	(69,227,799)	(87,087,426)
Net Outlays	$ 92,725,723	$ 47,145,239

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENTS OF FINANCING
For the Years Ended September 30, 2002 and 2001

	2002	2001
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 157,031,709	$ 146,681,563
Less: Spending authority from offsetting collections and recoveries	(71,672,513)	(87,776,801)
Obligations net of offsetting collections and recoveries	85,359,196	58,904,762
Other Resources		
Imputed financing from costs absorbed by others	5,110,007	4,519,974
Total Resources Used to Finance Activities	90,469,203	63,424,736
Resources Used to Finance Items not Part of the Cost of Operations:		
Change in budgetary resources obligated for goods and services ordered but not yet received or provided	4,546,738	(7,585,546)
Resources that finance the acquistion of assets	(5,199,034)	(1,940,465)
Total resources used to finance items not part of the net cost of operations	(652,296)	(9,526,011)
Total Resources Used to Finance the Net Cost of Operations	89,816,907	53,898,725
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in Annual Leave Liability	427,417	79,351
Increase in FECA Liability	491,997	(355,892)
Total Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period	919,414	(276,541)
Components Not Requiring or Generating Resources:		
Depreciation and amortization	717,752	311,734
Total Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	1,637,166	35,193
Net Cost of Operations	$ 91,454,073	$ 53,933,918

The accompanying notes are an integral part of these statements

FEDERAL TRADE COMMISSION
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2002 and 2001

(Refer to Note 11)

	MC Mission	CP Mission	2002 Total	2001 Total
Sources of Collections:				
Cash Collections:				
Premerger Filing Fees (Net of Refunds) (a)	$ 67,945,000	$ -	$ 67,945,000	$ 86,340,113
Civil Penalties and Fines (b)	-	1,258,769	1,258,769	1,065,953
Redress (c)	-	42,712,886	42,712,886	26,685,566
Divestiture Fund (d)	382,464	-	382,464	40,592,806
Funeral Rule Violations	-	206,045	206,045	86,265
Net Collections	68,327,464	44,177,700	112,505,164	154,770,703
Accrual Adjustments (e)	-	58,974,471	58,974,471	28,319,231
Total Non-exchange Revenues	$ 68,327,464	$ 103,152,171	$ 171,479,635	$ 183,089,934
Disposition of Revenue Collected:				
Amounts Transferred to:				
Treasury General Fund	-	8,270,286	8,270,286	4,737,920
Department of Justice	72,183,085	-	72,183,085	81,131,361
Receivers (f)	-	162,955	162,955	2,006,606
Redress to Claimants (g)	-	17,293,247	17,293,247	15,672,236
Contractor Fees Net of Interest Earned (h)	-	1,527,926	1,527,926	804,069
Net disbursements	72,183,085	27,254,414	99,437,499	104,352,192
Change in Liability Accounts (i)	(3,855,621)	75,897,757	72,042,136	78,737,742
Total Disposition of Revenues Collected	$ 68,327,464	$ 103,152,171	$ 171,479,635	$ 183,089,934
Net Custodial Collections	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Federal Trade Commission (FTC) was created by the Federal Trade Commission Act of 1914. The FTC enforces a variety of federal antitrust and consumer protection laws. The FTC seeks to ensure that the nation's markets function competitively and are vigorous, efficient, and free of undue restrictions. The FTC also works to enhance the smooth operation of the marketplace by eliminating acts or practices that are unfair or deceptive. In general, FTC's efforts are directed toward stopping actions that threaten consumers' opportunities to exercise informed choice. Finally, the FTC undertakes economic analysis to support its law enforcement efforts and to contribute to the policy deliberations of the Congress, the Executive Branch, other independent agencies, and state and local governments when requested.

(b) Fund Accounting Structure

The FTC's financial activities are accounted for by federal account symbol. They include the accounts for appropriated funds and other fund groups described below for which the FTC maintains financial records, and consumer redress accounts for which the agency has management oversight.

General Funds These funds consist of salaries and expense appropriation accounts used to fund agency operations and capital expenditures.

Deposit Funds These funds consist of monies held temporarily by FTC as an agent for others.

Suspense Funds These funds are maintained to account for receipts awaiting proper classification, or held in escrow, until ownership is established and proper distributions can be made.

Miscellaneous Receipt Accounts The FTC collects civil penalties and other miscellaneous receipts which by law are not retained by the FTC. The U.S. Department of the Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year.

(c) Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, financing and custodial activities of the FTC, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Bulletin 01-09. They have been prepared from the books and records of the FTC and include the accounts of all funds under the control of the FTC.

Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

In addition, the accompanying statements include information on the activities of the agency's consumer redress program. Independent agents are contracted to administer the program under the oversight of FTC program offices, which maintain the financial records for consumer redress activity.

(d) Budget Authority

Congress annually passes appropriations that provide the FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended. The funds appropriated are subject to OMB apportionment of funds in addition to Congressional restrictions on the expenditure of funds. Also, the FTC places internal restrictions to ensure the efficient and proper use of all funds. Appropriated funding is derived from various revenues and financing sources.

(e) Fund Balances with the U.S. Treasury

With the exception of cash held in consumer redress custodial accounts by FTC's contracted agents, the FTC does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury consist of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, and restricted funds, which include deposit and suspense funds. The FTC's fund balances with Treasury are carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

(f) Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received. Advances are principally advances to FTC employees for official travel.

(g) Accounts Receivable

Entity accounts receivable include amounts due from other federal entities and from current and former employees and vendors. Non-entity accounts receivable are for civil monetary penalties imposed as a result of the FTC's enforcement activities and for uncollected redress judgments and amounts due from receivers. Since the FTC does not retain these receipts, a corresponding liability is also recorded for non-entity accounts receivable.

Opening judgment receivable balances reflect the Federal Accounting Standards Advisory Board (FASAB) standard for the recognition of losses using the collection criterion of "more likely than not." This criterion results in receivable balances that are more conservatively stated than those valued by the private sector under generally accepted accounting principles. The Board states that it is appropriate to recognize the nature of federal receivables which, unlike trade accounts of private firms or loans made by banks, are not created through credit screening procedures. Rather, these receivables arise because of the assessment of fines from regulatory violations. In these circumstances, historical experience and economic factors indicate that these types of claims are frequently not fully collectible.

The FTC recognizes an allowance for uncollectible non-entity accounts receivable by individual account analysis based on the debtor's ability and willingness to pay, and the probable recovery of amounts from secondary sources, including liens, garnishments, and other applicable collection tools. Entity accounts receivables are considered fully collectible and therefore no allowance is recorded.

(h) Property and Equipment

Commercial vendors and the General Services Administration, which charges the FTC a Standard Level Users Charge (SLUC), which approximates the commercial rental rates for similar properties, provide the land and buildings in which FTC operates.

Property and equipment consists of equipment, leasehold improvements and software. All items with an acquisition value greater than $100,000 and a useful life over two years are capitalized using the straight-line method. Service lives range from five to fifteen years.

Internal use software development and acquisition costs of $100,000 are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of three years. Purchased commercial software purchased which does not meet the capitalization criteria is expensed.

(i) Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred. Liabilities classified as not covered by budgetary resources are liabilities for which appropriations have not been enacted and liabilities resulting from the agency's custodial activities. *See Note 11.* Also, the Government, acting in its sovereign capacity, can abrogate FTC liabilities (other than contracts).

(j) Accrued Leave

A liability for annual leave is accrued as leave is earned and paid when leave is taken. At year end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

(k) Federal Employees' Compensation Act (FECA) Actuarial Liability and Accrued FECA Claims

The FTC records an estimated liability for future workers' compensation claims based on data provided from the Department of Labor (DOL). The FTC also records a liability for actual claims paid on its behalf by the DOL.

(l) Employee Health Benefits and Life Insurance

FTC employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). The FTC matches the employee contributions to each program to pay for current benefits.

(m) Post-Retirement Health Benefits and Life Insurance

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. OPM has provided the FTC with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The FTC recognizes a current cost for these and other retirement benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the FTC through the recognition of an imputed financing source on the Statement of Financing. During fiscal years 2002 and 2001, the cost factors relating to FEHBP were $3,473 and $2,999, respectively, per employee enrolled. During fiscal years 2002 and 2001, the cost factor relating to FEGLIP was 0.02 percent of basic pay per employee enrolled. See Note 9, Imputed Financing.

(n) Employee Retirement Benefits

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, may elect to either join FERS or remain in the CSRS. Approximately 30 percent of FTC employees participate in the CSRS. For employees participating in CSRS, the FTC contributes 8.5 percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 10.7 percent to the Federal Employees' Retirement Fund. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which the FTC contributes a matching amount to the Social Security Administration. FTC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participating employees may contribute up to 7 percent of earnings for 2002, 6 percent for 2001, to TSP, but do not receive a matching contribution from the FTC. FERS participating employees may contribute up to 12 percent and 11 percent of earnings for the years 2002 and 2001, respectively, to the TSP plan. For FERS employees, the FTC contributes 1 percent of the employee's gross pay to the TSP. The FTC also matches 100 percent of the first 3 percent contributed and 50 percent of the next 2 percent contributed. FTC contributions are recognized as current operating expenses. Although FTC contributes a portion for pension benefits and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee's retirement benefits, or the retirement plan assets. Therefore, the FTC financial statements do not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employee's services are rendered. OPM has provided the FTC with certain cost factors that estimate the true service cost of providing the pension benefits to covered employees. The cost factors used to arrive at the service cost are 24.2 percent of basic pay for CSRS covered employees and 11.5 percent of basic pay for FERS covered employees during fiscal years 2002 and 2001. The pension expense recognized in the financial statements equals this service cost to covered employees less amounts contributed by these employees. If the pension expense exceeds the amount contributed by the FTC as employer, the excess is recognized as an imputed financing cost. The excess total pension expense over the amount contributed by the agency must be financed by OPM and is recognized as an imputed financing source, non-exchange revenue.

(o) Net Position

The FTC's net position is composed of the following:

1. Unexpended appropriations include the amount of unobligated balances and undelivered orders. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation.

2. Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, the remaining book value of capitalized assets, and future funding requirements.

(p) Exchange Revenues

The Federal Accounting Standards Advisory Board defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return.

Exchange revenues are earned through the collection of fees under the Hart-Scott-Rodino (HSR) Antitrust Improvement Act of 1976. This Act, in part, requires the filing of premerger notifications with the FTC and the Antitrust Division of the Department of Justice and establishes a waiting period before certain acquisitions may be consummated. The FTC retains one-half of the HSR premerger filing fees collected. This fee revenue funded approximately 42 percent and 55 percent for 2002 and 2001, respectively, of the agency's operations. Revenue is recognized when earned; i.e., all required documentation under the HSR Act has been received by the agency. Fees not retained by the FTC are not reported as revenue and are maintained in a suspense fund until transferred to the Department of Justice. The filing fees are based on the transaction amount of the merger and follow a three-tiered structure: $45,000, $125,000, and $280,000. Transaction amounts over $50 million require the acquiring party to pay a filing fee.

Exchange revenue is also earned for services provided to other Government agencies through reimbursable agreements. The FTC recovers the full cost of services, primarily salaries and related expenses. Amounts are earned at the time the expenditures are incurred against the reimbursable order. Exchange revenues are deducted from the full cost of the FTC's programs to arrive at net program cost.

(q) Appropriations Used

In addition to exchange revenue, the FTC receives financing sources through direct appropriation from the general fund of the Treasury to support its operations. A financing source, appropriations used, is recognized to the extent these appropriated funds have been consumed. In fiscal years 2002 and 2001, the FTC received a financing source in the form of a direct appropriation which represented approximately 54 percent and 39 percent of total revenues and financing sources realized and which funded approximately 54 percent and 42 percent of gross operating expenses, respectively.

(r) Methodology for Assigning Cost

Total costs were allocated to each mission based on two components: a) direct costs to each mission and b) indirect costs based on the percentage of direct FTE used by each mission.

(s) Comparative Data

Certain 2001 financial statement line items have been reclassified to conform with the current year's presentation.

NOTE 2 -- FUND BALANCES WITH TREASURY

Fund balances with Treasury consisted of the following at September 30, 2002 and 2001:

	Obligated	Unobligated Available	2002 Total	2001 Total
General Funds	$ 21,785,878	$ 7,813,356	$ 29,599,234	$ 35,760,720
Suspense Funds:				
Undecided Civil Penalty Cases	-	-	-	467,431
Undisbursed Pre-merger Filing Fees due DOJ	-	-	1,683,147	5,921,233
Deposit Funds - Redress	-	-	1,645,487	4,295,191
Total	$ 21,785,878	$ 7,813,356	$ 32,927,868	$ 46,444,575

The obligated balance includes accounts payable and undelivered orders which have reduced

Note 2 - Fund Balances with Treasury (continued)

unexpended appropriations but have not yet decreased the cash balance on hand.

Other Information Deposit and suspense funds amounting to $3,328,634 and $10,683,855 as of September 30, 2002 and 2001, respectively, stated above are not available to finance FTC activities and are classified as non-entity assets, and a corresponding liability is also recorded.

NOTE 3 -- CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets held as non-entity assets consist of deposits in transit for pre-merger filing fees, redress judgment amounts on deposit with FTC's distribution agents, and divestiture fund deposits. A corresponding liability is recorded for these assets.

Cash and other monetary assets consisted of the following at September 30, 2002 and 2001:

	2002	2001
Entity	$ -	$ 11,020
Non-entity:		
Redress contractors	61,275,071	41,234,651
Divestiture Fund (See Note 11(d))	40,975,271	40,592,806
Total Non-entity	$ 102,250,342	$ 81,827,457

NOTE 4 -- ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following, as of September 30, 2002 and 2001:

	Currently Due	Allowance	2002 Net	2001 Net
Entity Assets:				
Intragovernmental-				
Accounts Receivable	$ 154,688	$ -	$ 154,688	$ 178,730
Non-Entity Assets:				
Consumer Redress	$ 182,976,086	$ 92,124,300	$ 90,851,786	$ 31,990,270
Due from Receivers	2,169,561	-	2,169,561	2,006,606
Civil Penalties	1,809,000	-	1,809,000	1,859,000
Total Non-Entity Assets	$ 186,954,647	$ 92,124,300	$ 94,830,347	$ 35,855,876

For more detailed information on non-entity receivables see Exhibit A.

NOTE 5 -- PROPERTY, PLANT, AND EQUIPMENT, NET

Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2002 and 2001:

Asset Class	Service Life	Acquisition Value	Accumulated Depreciation	2002 Net Book Value	2001 Net Book Value
Equipment & Furniture	5-10 Yrs	$ 3,400,522	$ 1,047,057	$ 2,353,465	$ 1,194,223
Leasehold Improvements	10-15 Yrs	2,853,227	132,922	2,720,305	789,441
Software	3 years	2,538,616	404,203	2,134,413	743,237
Total		$ 8,792,365	$ 1,584,182	$ 7,208,183	$ 2,726,901

Property and equipment are depreciated using the straight-line method. Depreciation expense was $717,752 and $311,734 for fiscal years ending September 30, 2002 and 2001, respectively.

NOTE 6 -- LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2002 and 2001:

(a) Intragovernmental and With the Public

	2002	2001
Intragovernmental		
Other Liabilities:		
Civil Penalty Collections Due	$ 1,809,000	$ 1,859,000
Accrued FECA Claims	381,737	291,405
Total	$ 2,190,737	$ 2,150,405
With the Public		
Undisbursed Redress	$ 62,920,558	$ 45,529,842
Divestiture Fund Due	40,975,271	40,592,806
Redress Net Collections Due	90,851,786	31,990,270
Receiver Distributions Due	2,169,561	2,006,606
Other	-	467,431
Total	$ 196,917,176	$ 120,586,955

(b) Other Information

Civil Penalty Collections Due represents the contra account for accounts receivable due for civil monetary penalties, which will be transferred to the general fund of the Treasury upon receipt. Accrued FECA Claims consists of workers compensation claims payable to the Department of

Note 6 - Liabilities Not Covered by Budgetary Resources (continued)

Labor (DOL) which will be funded in a future period.

Undisbursed Redress includes redress in FTC's Treasury deposit account, or with FTC redress contractors.

Divestiture Fund Due represents the contra account for the divestiture fund held by one of FTC's contractors until distribution of the funds are ordered per terms of the agreement.

Redress Net Collections Due represents the contra account for accounts receivable due from judgments obtained as a result of the agency's consumer redress litigation.

Receiver Distributions Due represents the liability not covered by budgetary resources for funds sent to receivers for distribution to consumers. A corresponding receivable, Due from Receivers is recorded.

Other consists primarily of deposits in transit and undisbursed cash in the suspense liability account for 2002 and 2001.

NOTE 7 -- NET POSITION

Net position consisted of the following as of September 30, 2002 and 2001:

	2002	2001
Unexpended Appropriations:		
Unobligated - Available	$ 350,000	$ -
Total Unexpended Appropriations	350,000	-
Cumulative Results of Operations:		
Invested Capital	7,208,183	2,726,901
Retained Fees:		
Unobligated	7,463,356	6,619,335
Undelivered Orders	12,986,472	17,533,210
Future Funding Requirements	(9,377,191)	(8,457,777)
Total Cumulative Results of Operations	18,280,820	18,421,669
Total Net Position	$ 18,630,820	$ 18,421,669

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

<u>*Commitments*</u> The FTC is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year end. Undelivered orders were $12,986,472 and $17,533,210 as of September 30, 2002 and 2001, respectively.

Note 8 - Commitments and Contingencies (continued)

Contingencies The FTC is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FTC management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or the results of operation of the FTC.

On November 14, 2002, the Court of Federal Claims granted the plaintiffs' motion for a summary judgment in a case brought by Department of Justice (DOJ) trial attorneys seeking overtime pay. The ruling indicated the attorneys were entitled to additional overtime pay, but did not establish either an amount of damages or methodology for calculating such an amount. On January 17, 2003, the court granted the DOJ's motion to stay the proceedings and allow an interlocutory appeal under 28 U.S.C. Sec. 1292 to the United States Court of appeals for the Federal Circuit. According to the agency's General Counsel, the circumstances underlying the DOJ case vary significantly from the circumstances for attorneys and other FLSA-exempt employees at the FTC, and that the FTC's ultimate potential exposure in such a case would be limited and in any event would turn on individual, not class action, claims.

Leases The FTC rents approximately 567,481 square feet of space in both commercial and government-owned properties for use as offices, storage and parking. Space leases for government-owned property are made with the General Services Administration (GSA). Leases of commercial property are made through and managed by GSA. The Commission has leases on five government-owned properties and eight commercial properties. The FTC's current leases expire at various dates through 2012. Two leases provide for tenant improvement allowances totaling $7.1 million, and provide that these costs be amortized over the length of the leases. Under the terms of the leases, the FTC agrees to reimburse the landlord for the principal balance of the unamortized portion of the tenant improvement allowance in the event the agency vacates the space before lease expiration. The leases expire in 2005 and 2012.

Rent expenditures for the years ended September 30, 2002 and 2001 were approximately $13.9 million and $12.7 million each year. This amount is net of a GSA credit of approximately $1.9 million for the fiscal years 2002 and 2001, each, relating to the main headquarters building.

Note 9 – Imputed Financing (continued)

Imputed Financing Source was composed of the following:

	2002	2001
FEHBP	$ 3,063,186	$ 2,510,913
FEGLIP	11,624	10,278
Pension benefits	2,035,197	1,973,783
Total imputed retirement benefits	5,110,007	4,494,974
Judgments paid	-	25,000
Total imputed costs	$ 5,110,007	$ 4,519,974

NOTE 10 -- PENSION EXPENSE

Pension expenses in 2002 and 2001 consisted of the following:

	Employer Contributions	Accumulated Imputed Costs	2002 Total Pension Expense	2001 Total Pension Expense
Civil Service Retirement System	$ 2,261,404	$ 2,179,900	$ 4,441,304	$ 4,392,740
Federal Employee's Retirement System	6,018,361	(144,703)	5,873,658	4,967,321
Thrift Savings Plan	2,646,959	-	2,646,959	2,485,905
Total	$ 10,926,724	$ 2,035,197	$ 12,961,921	$ 11,845,966

NOTE 11 -- CUSTODIAL ACTIVITIES

The FTC functions in a custodial capacity with respect to revenue transferred or transferable to recipient government entities or the public. These amounts are not reported as revenue to the FTC. The major components of the FTC's custodial activities are discussed below.

(a) Premerger Filing Fees

All Hart-Scott-Rodino (HSR) premerger filing fees are collected by the FTC pursuant to section 605 of P.L. 101-162, as amended, and are divided evenly between the FTC and the Department of Justice. The collected amounts are then credited to the appropriations accounts of the two agencies (FTC's "Salaries and Expenses" and DOJ's "Salaries and Expenses, Antitrust Division"). During fiscal years 2002 and 2001, respectively, FTC collected $135,890,000 and $172,680,224 in HSR fees. Half of this amount, $67,945,000 in 2002 and $86,340,112 in 2001, was held for transfer to DOJ. As of September 30, 2002 collections not transferred to DOJ total $1,683,147 .

(b) Civil Penalties and Fines

Civil penalties collected in connection with the settlement or litigation of the FTC's administrative or federal court cases are collected by either the FTC or DOJ as provided for by law. DOJ assesses a fee equivalent to three percent of amounts collected before remitting them to the agency. The agency then deposits these collections into the U.S. Treasury. Civil penalties collected also include amounts collected for undecided civil penalty cases held in suspense until final disposition of the case.

(c) Redress

The Commission obtains consumer redress in connection with the settlement or litigation of both its administrative and its federal court cases. The Commission attempts to distribute funds thus obtained to consumers whenever possible. If consumer redress is not practical, the funds are paid (disgorged) to the U. S. Treasury, or on occasion, other alternatives, such as consumer education, are explored. Major components of the program include eligibility determination, disbursing redress to claimants, and accounting for the disposition of these funds. Collections made against court-ordered judgments totaled $ 42,712,8886 and $26,685,566 during fiscal years 2002 and 2001, respectively.

The sources of these collections are as follows:

Source	2002	2001
Contractors	$ 35,839,218	$ 13,840,450
Receivers	1,115,119	4,046,300
FTC	5,758,549	8,798,816
Total	$ 42,712,886	$ 26,685,566

(d) Divestiture Fund

One judgment obtained by the agency on behalf of its maintaining competition mission stipulates the divestiture of assets by the defendants into an interest bearing account to be monitored by the agency. The balance of the account represents principal and related interest held at one of FTC's contractor accounts as stipulated in the judgment. A corresponding liability is recorded.

(e) Accrual Adjustments

These adjustments represent the difference between the agency's opening and closing accounts receivable balances. Accounts receivable are the funds owed to the agency (as a custodian) and ultimately to consumers or other entities. See Exhibit A for computation of accrual adjustments to the Statement of Custodial Activity.

Note 11 - Custodial Activities (continued)

(f) Receivers

This amount represents the funds forwarded to receivers during the year for distribution by receivers to consumers. The agency has recorded an asset, 'Due from Receivers', and a corresponding liability, 'Receivers Distributions Due', which will be reduced as the distributions to consumers are confirmed.

(g) Redress to Claimants

Redress to claimants consists of amounts distributed to consumers by FTC, one of its contracted agents, the court appointed receiver, or by the defendant. In fiscal year 2002 a total of $17,293,247 was distributed to consumers: $16,178,128 was paid by FTC and its contracted agents, and $1,115,119 was paid by receivers. In fiscal year 2001, a total of $15,672,236 was distributed to consumers: $11,625,936 was paid by the FTC and its contracted agents, and $4,046,300 was distributed by receivers and defendants, consisting of cash and non-cash instruments, such as company coupons.

(h) Contractor Fees Net of Interest Earned

Collections against monetary judgments are often deposited with one of the agency's three redress contractors until distributions to consumers occur. Funds are deposited in interest bearing accounts, and the interest earnings are used to fund administrative expenses. Contractor expenses for the administration of redress activities and funds management amounted to $2,280,653 and $2,184,562 during the years ended September 30, 2002 and 2001, respectively.

Interest earned was $752,727 and $1,380,493 during fiscal years 2002 and 2001, respectively, with the difference of $1,527,926 and $804,069 representing net expense.

(i) Change in Liability Accounts

Liability accounts contain funds that are in the custody of the agency or its agents, and are owed to others (consumers, receivers for fees, and/or the Department of Justice). See Exhibit B for the computation of liability account changes.

(j) Current Year Judgments

A judgment is a formal decision handed down by a court. Redress judgments include amounts that defendants have agreed, or are ordered, to pay, for the purpose of making restitution to consumers deemed to have been harmed by the actions of the defendant(s) in the case. For purposes of presentation in Exhibit A, redress judgments include cases in which the FTC, or one of its agents, is directly involved in the collection or distribution of consumer redress. In fiscal years 2002 and 2001, the agency obtained and reported in Exhibit A monetary redress judgments against defendants totaling $155 million and $252 million, respectively.

Note 11 - Custodial Activities (continued)

The FTC does not include in the presentation of Exhibit A current redress judgment cases in which the FTC, or one of its agents, is not directly involved with the collection or distribution of consumer redress. These are cases in which the defendant, or other third party, has been ordered to pay redress directly to the consumers. There was one such case in fiscal year 2002 in which the FTC obtained a judgment. In most of these cases, the judgment has ordered redress in the form of refunds or credits.

The agency also obtained civil penalty judgments of $1.7 million and $2 million fiscal years 2002 and 2001, respectively.

(k) Treasury Referrals and Prior Year Recoveries

Monetary judgments six months or more past due are referred to the Department of Treasury for follow up collection efforts in keeping with the Debt Collection Improvement Act of 1996 (DCIA). Treasury's Debt Management Services (DMS) administers the program, and deducts 18 percent from amounts ultimately collected for its fee. Collections, net of fees, are returned to the FTC for distribution to either consumers, in the form of redress, or to the general fund of the Treasury as disgorged amounts. In fiscal years 2002 and 2001, $10,129 and $2,630,126 (net of fees) were collected based on FTC referrals and are reported as collections on the Statements of Custodial Activity. The FTC refers to DMS only those cases as defined in DCIA. This excludes cases that are in receivership, in bankruptcy or foreign debt. During 2002 and 2001, $32,989,720 and $86,055,063 were referred to the DMS for collection.

Prior year recoveries include amounts collected on cases which were written off in a previous year. In fiscal years 2002 and 2001, $1,056,775 and $4,312,362 were collected.

(l) Adjustments to Beginning Balances

The Adjustment to beginning balance represents the net realizable amount of a fiscal year 2000 redress judgment that was omitted from prior year statements.

(m) Adjustments to the Allowance

Adjustments to the allowance for redress represent amounts formally written off during the year in the amount of $43,973,005 and adjustments to the provision for uncollectible amounts of $10,990,784

NOTE 12 -- STATEMENT OF NET COST

The Statements of Net Cost are consolidated for the FTC using a Budget Functional Classification (BFC) code. BFC codes are used to classify budget resources presented in the Budget of the United States Government per OMB. FTC is categorized under BFC code 376 – Other Advancement of Commerce. Gross cost and earned revenue for the FTC fall under this code, regardless of whether

Note 12 – Statement of Net Cost (continued)

the fees are intragovernmental or with the public.

Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2002	376	$ 160,657,829	$ (69,203,756)	$ 91,454,073
FY 2001	376	$ 141,106,588	$ (87,172,670)	$ 53,933,918

Intragovernmental Gross Cost and Earned Revenue:

	BFC Code	Gross Cost	Earned Revenue	Net Cost
FY 2002	376	$ 40,693,557	$ (1,258,756)	$ 39,434,801
FY 2001	376	$ 35,208,730	$ (832,557)	$ 34,376,173

Exhibit A

FEDERAL TRADE COMMISSION
Notes to the Statements of Custodial Activity
Accrual Adjustments
September 30, 2002 and 2001

	CP Mission		2002	2001
Part 1	**Civil Penalty**	**Redress**	**Total**	**Total**
Judgements Receivable - Net Beginning	$ 1,859,000	$ 33,996,876	$ 35,855,876	$ 7,536,645
Adjustment to Beginning Balance (Note 11 l)				$ 1,000,000
Add:				
Current Year Judgements (Note 11j)	1,751,969	155,481,418	157,233,387	254,218,035
Due From Receivers (Note 11f)	-	162,955	162,955	2,006,606
Prior Year Recoveries (Note 11k)	-	1,056,775	1,056,775	4,312,362
Less:				
Collections by FTC/Contractors Receivers	(1,726,200)	(42,712,886)	(44,439,086)	(27,315,579)
Collections by DOJ for Litigation Fees/Other	(33,858)	-	(33,858)	(15,627)
Less:				
Adjustments to Allowance (Note 11 m)	(41,911)	(54,963,791)	(55,005,702)	(205,886,566)
Judgements Receivable - Net, Ending	$ 1,809,000	$ 93,021,347	$ 94,830,347	$ 35,855,876
Part 2				
Judgements Receivable - Net Ending	$ 1,809,000	$ 93,021,347	$ 94,830,347	$ 35,855,876
Judgements Receivable - Net Beginning	1,859,000	33,996,876	35,855,876	7,536,645
Accrual Adjustment	$ (50,000)	$ 59,024,471	$ 58,974,471	$ 28,319,231

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2002 and 2001

Exchange Revenue from Reimbursable Agreements

Trading Partner:	**2002**	**2001**
Department of Justice	$ 577,816	$ 383,797
U.S. Agency for International Development	600,306	367,300
Consumer Product Safety Commission	2,474	-
Commodity Futures Trading Commission	738	-
Federal Deposit Insurance Corporation	738	-
National Credit Union Administration	738	-
Office of the Comptroller of the Currency	738	-
Office of Thrift Supervision	738	-
Securities Exchange Commission	738	-
Federal Reserve Board	775	-
New York State	10,912	81,460
University of Rochester	62,045	-
Total Exhange Revenue from Reimbursable Agreements	$ 1,258,756	$ 832,557

Related Costs:

Budget Function Classification:	**2002**	**2001**
Other Advancement of Commerce	$ 1,258,756	$ 832,557
Total Related Costs	$ 1,258,756	$ 832,557

FEDERAL TRADE COMMISSION
Required Supplementary Information
For the Years Ended September 30, 2002 and 2001

Intragovernmental Expenses:

Trading Partner:	**2002**	**2001**
Government Printing Office	$ 229,815	$ 712,637
Department of Agriculture	138,576	90,527
Department of Commerce	779	(2,387)
Department of the Interior	752,163	694,127
Department of Justice	192,867	54,849
Department of Labor	192,795	29,618
United States Postal Service	246,332	332,847
Department of State	72,761	6,694
Department of the Treasury	(8,167)	(19,939)
Office of Personnel Management	17,009,230	15,004,965
Social Security Administration	4,560,260	3,852,248
General Services Administration	16,443,252	13,697,217
Department of Transportation	552,579	599,987
Department of Health and Human Services	271,616	130,787
National Archives and Records Administration	3,284	22,828
Equal Employment Opportunity	729	-
Library of Congress	34,686	-
Office of Government Ethics	-	1,725
Total Intragovernmental Expenses	$ 40,693,557	$ 35,208,730

Mission:		
Maintaining Competition	$ 20,148,026	$ 16,886,230
Consumer Protection	$ 20,545,531	18,322,500
Total Intragovernmental Expenses	$ 40,693,557	$ 35,208,730